

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 15, 1936, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of
Examinations
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Wingfield, Assistant General Counsel
Mr. Dreibelbis, Assistant General Counsel

There was presented a memorandum prepared at the request of the Chairman setting forth the reasons for a suggested amendment to the proposed Revenue Act of 1936 (H.R. 12395) to exempt banking holding company affiliates from being taxed on the part of their earnings which, under the provisions of section 5144 of the Revised Statutes, they would not be permitted to distribute to stockholders. Chairman Eccles stated that he had requested that the memorandum be prepared in order that the Board might give consideration to whether it wished to submit the proposed amendment to the Senate Finance Committee which was considering the bill.

The matter was discussed and, upon motion by Mr. Szymczak, counsel was requested to prepare, for consideration by the Board, a draft of a letter to the Chairman of the Senate Finance Committee suggesting that the Revenue Act of 1936 be amended to provide that for the purpose of the tax upon the income of any holding company affiliate, as defined by section 2 of the Banking Act of

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1933, there shall be allowed as a credit against net income that portion of the net income of such holding company affiliate which it retains in order to comply with section 5144 of the Revised Statutes.

Consideration was given to a memorandum dated May 11, 1936, from Messrs. Smead and Paulger in which they pointed out certain objections to Senate Bill 4514, which related to the payment of dividends by national banks, and which had been introduced in the Senate pursuant to a suggestion made by the Comptroller of the Currency. It was stated in connection with a discussion of the memorandum that there was little likelihood that the bill would be passed at the present session of Congress and that, therefore, there was no necessity for any action by the Board on the matter.

It was understood that counsel's office would keep in touch with the consideration given to the bill by the House and Senate and the Chairman was authorized, in the event it should appear that the bill might be enacted into law at the present session of Congress, to take such action as he might consider necessary in the circumstances.

At this point Messrs. Smead, Paulger, Wingfield and Dreibelbis left the meeting.

Mr. Morrill presented a memorandum prepared by him under date of May 8, 1936, and circulated among the members of the Board, in which he recommended, for the reasons stated, that the Board approve the purchase of accident insurance of the kind described in the memorandum, at a total annual premium of \$359.60, for the five employees of the Board working at the site of the Board's new building, and that the purchase of accident

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insurance on the same terms for any other employees who may be employed from time to time in similar capacities in addition to or to replace the five employees referred to be authorized. The memorandum stated that a situation might arise in which an employee who had suffered an accident might remain on the Board's payroll on sick leave and at the same time be receiving a weekly income from the insurance policy in addition to reimbursement for medical expenses, and it was proposed, in the event the recommendation referred to above was approved, to work out a procedure, in consultation with counsel, whereby in such a situation any weekly income received by an employee from such insurance would be deducted from the salary otherwise payable to him by the Board, after taking into consideration the amount of the excess, if any, of his medical and hospital expenses over the amount received from the insurance company in reimbursement for such expenses. The memorandum also stated that in such procedure account would also be taken of any payments which might be received by an employee under the Federal Employees' Compensation Act.

The recommendation was approved unanimously.

Chairman Eccles stated that one of the topics assigned by the Board to Mr. Szymczak for primary consideration was the relations of the Federal reserve banks with the public, and that, in connection with that assignment, Mr. Szymczak had accepted a considerable number of invitations to speak at meetings of bankers associations and other groups on subjects of interest to the Federal Reserve System, but felt that erroneous impressions might result if other members of the Board refrained from

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accepting similar invitations. Mr. Eccles said that it was believed that all of the members of the Board should share as far as practicable in such activities by accepting invitations to speak on the organization and operation of the Federal Reserve System at important bankers meetings and that, in order that this activity might be properly systematized, it would be desirable for the members of the Board to confer with Mr. Szymczak regarding any invitations that they might receive, with a view to working out mutually satisfactory arrangements for attendance at such meetings in the light of the other duties of the Board.

It was agreed that this procedure should be followed.

Chairman Eccles then suggested that, in view of the continued absence of Mr. Morrison and the contemplated absence for possibly a month, because of illness, of Mr. Ransom, the topics assigned at the meeting of the Board on February 4, 1936, to Mr. Morrison for primary consideration be assigned to Mr. Szymczak during the absence of Mr. Morrison, and that the topics assigned to Mr. Ransom be assigned during the absence of Mr. Ransom to Mr. McKee.

Chairman Eccles' suggestion was approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on May 11 and 12, 1936, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on May 13 and 14, 1936, were approved unanimously, and the actions recorded therein were ratified unanimously.

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At this point Messrs. Thurston and Wyatt left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Telegrams to Messrs. Kimball, Strater and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland and Chicago, respectively, stating that the Board approves the establishment without change by the New York bank on May 14, and by the Cleveland and Chicago banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of April 8, 1936, inquiring whether all direct or participating transactions of Federal Reserve banks in the purchase or sale of bills payable in foreign currencies will come under the jurisdiction of the Federal Open Market Committee. Inasmuch as this question involves the jurisdiction of the Board as well as that of the Federal Open Market Committee, I have submitted the question to the Board.

"It is the Board's view that all open market operations of Federal Reserve banks under the provisions of section 14 of the Federal Reserve Act are within the jurisdiction of the Federal Open Market Committee, and Federal Reserve banks cannot lawfully engage or decline to engage in such transactions except in accordance with the direction of and regulations adopted by the Committee pursuant to section 12A.

"This, however, is in addition to the requirements contained in section 14 of the Federal Reserve Act and no Federal Reserve bank can lawfully engage in open market transactions at home or abroad except in accordance with the provisions of section 14 and the regulations issued pursuant thereto. Thus, no Federal Reserve bank can open and maintain accounts in foreign countries, appoint correspondents or establish agencies in such countries except with the consent of the Board, nor can it engage in the purchase or sale of bills through such accounts, correspondents or agencies without the consent also of the Federal Open Market Committee. Likewise, all relationships and transactions between Federal Reserve

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"banks and foreign banks or bankers continue to be subject to the provisions of section 14(g) and the Board's Regulation N; and, if such transactions involve open market operations, they are also subject to the jurisdiction of the Federal Open Market Committee.

"As the Board had already authorized the establishment of the foreign accounts referred to in my letter of March 24, 1936, written as Secretary of the Federal Open Market Committee, it was within the province of the Committee in the direction of open market operations to authorize the replacement of maturing bills held in such accounts by the purchase in the open market of a like amount of bills payable in foreign currency.

"A copy of your letter and this reply is being forwarded to the Presidents of all Federal Reserve banks for their information."

Approved unanimously.

Thereupon the meeting adjourned.

Robert H. Morris
Secretary.

Approved:

W. C. C. C.
Chairman.